

Proposed Affordable Housing Policy: Developer Set-Aside Program Overview

Presentation to the Mayor & City Council



August 14, 2006





Background

- November 21, 2005 Work Session: *“Discussion Concerning Affordable Housing Issues/Programs in Gaithersburg”*
- March 6, 2006 Mayor and Council Meeting: *“Presentation on Staff Efforts to date to Create a Proposed Comprehensive Affordable Housing Policy in the City of Gaithersburg”*
- May 8, 2006 Work Session: *“Update on the Development of the Proposed Comprehensive Affordable Housing Policy”*



Proposed Affordable Housing Programs (I – V)

- I. Developer Set Aside.
- II. Creation of Affordable Housing in Existing Neighborhoods.
- III. Rehab and Conversion of Low-income apartments to Affordable Housing Units.
- IV. Redevelopment of Existing Housing.
- V. Other Public Private Funding Rental Opportunities.



NEXT STEPS

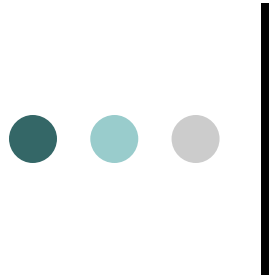
- Consider ordinance that would create base requirements for developers
- Consider regulations that would implement the ordinance and administer the program



Ordinance Components

Applicability:

- all new residential developments and major redevelopment projects with 10 or more units
- for-sale and rental



Ordinance Components (cont.)

For-Sale Units % of Set-Aside:

15% of all units

- divided equally between Moderately Priced Dwelling Units (MPDUs) and Work Force Housing Units (WFHUs)



Ordinance Components (cont.)

Pricing:

- MPDUs priced to be affordable to households earning 70% of Area Median Income (AMI), adjusted for household size
- WFHUs priced to be affordable to households earning 90% of AMI, adjusted for household size



Ordinance Components (cont.)

Unit Mix and Appearance:

- the number of efficiency, one bedroom, two bedroom, and three bedroom units to be proportional to the total number of those units in the development
- exterior of MPDU and WKFH units not to be distinguishable from other units in development in terms of finishes, materials and general appearance
- MPDUs and WFHU to be generally dispersed throughout a development



Ordinance Components (cont.)

Alternative Payment Procedure:

- Developer to contribute to a Housing Initiatives Fund in lieu of constructing required units where units will not be reasonably affordable due to high condo fees
- Amount of contribution: difference between actual sales price and actual cost of construction



Ordinance Components (cont.)

Requirements for Rental Units:

Applicability:

- All new residential developments or developments with substantial renovation in which 10 or more units are available for rent

Percentage of Units Set-Aside:

- 15%, with entire portion as MPDUs

Control Period:

- 30 years
- No Re-Set

Income Limits:

- Affordable to households earning 60% of Area Median Income, adjusted for household size



Ordinance Components (cont.)

Waiver:

- Mayor and City Council may waive or modify the MPDU/WFHU requirements for a project upon finding that the affordable housing component would make a proposed project financially feasible overall



Regulation Components

Purchaser Eligibility and Selection:

- MPDU: households between 60 and 80 percent of AMI
- WFHU: households between 80 and 120 percent of AMI
- 25% of units available to City employees, public safety workers, or teachers working in Montgomery County
- 75% of units available to people who have lived or worked in the City for at least one year
- Must not have owned a home within five years
- Units must be owner-occupied
- Purchasers selected through lottery



Regulation Components (cont.)

20 Year For- Sale Control Period:

- Alternative A:
 - full re-set regardless of length of ownership within 20 year control period
- Alternative B:
 - Resets to zero until one household owns property for 10 consecutive years
 - Once property owned by same household for at least 10 years, control period does not reset



Regulation Components (cont.)

Re-Sale Pricing and Owner Equity:

Alternative A:

- If unit owned for less than 10 years:
 - Price is sum of:
 - acquisition price, aggregate change in Consumer Price Index (CPI) over period of ownership, credit for documented capital improvements
- If unit is owned more than 10 years:
 - Price is sum of:
 - acquisition price, aggregate change in CPI over first 10 years of ownership, credit for documented capital improvements, and
 - average market housing increase in Montgomery County, determined by Housing Price Index, for entire period of ownership but applied only to years of ownership subsequent to initial 10 year period
 - If re-sale price exceeds affordability for target group maximum income limits would be adjusted to correspond to higher price

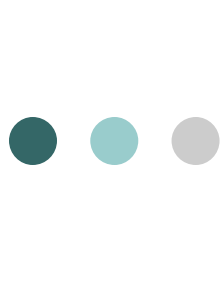


Regulation Components (cont.)

Re-Sale Pricing:

Alternative B:

- Re-sale price not tied to length of ownership
- Price is sum of:
 - Acquisition price
 - Aggregate change in CPI over period of ownership
 - Credit for documented capital improvements
- Affordability retained
- Income limits do not need adjustment



Regulation Components (cont.)

Sale Upon Expiration of Control Period:

Alternative A

- Tied to enhanced equity/no reset in second 10 year model
- At termination of control period, unit to be sold at market rate
- Profit sharing with City required after first sale
- Profit sharing based on length of ownership
 - After first full year of ownership, seller earns 5% of excess profit for every year of ownership up to a 100% share for 20 years of ownership
 - Remaining percentage contributed to HIF
 - Examples:
 - seller owns property for 5 years and sells property at market rate when control period ends; seller earns 25% of profit; City earns 75%
 - seller owns property for 20 years and sells property at market rate when control period ends; seller earns 100% of profit, City earns zero



Regulation Components (cont.)

Alternative B:

- Tied to 20 year control with no enhanced equity and re-sets throughout entire period
- Profit Share with City Required After Control Period Ends
- Seller required to split one-half of excess profit with City for sales that occur between years 21-30 (ie, 10 years after control period expires)
 - Funds contributed to HIF
- For sales after 30 years of ownership:

Options:

1. seller retains 100% of profit if property owned 10 years or more after expiration of control period;
2. split with City based on length of ownership:
Example: In Year 32, seller retains 60%; City retains 40%
Example: In Year 40, seller retains 100%; City retains zero.



Policy Questions

For ordinance:

- Does the Mayor and City Council want to move forward with introduction of the base ordinance? Any modifications at this point?

For regulations:

- Should the control period be re-set to zero after all sales and not just in the first ten years in order to retain affordability for a longer period?
- Should owners be provided any additional equity, other than the aggregate increase in CPI, after 10 years of ownership given that affordability will be lost for the target population by providing enhanced equity to these owners?